

Neighborhood Planning for Community Revitalization

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CURA RESOURCE COLLECTION

**Center for Urban and Regional Affairs
University of Minnesota
330 Humphrey Center**

**Micro Venture Capital:
A Feasibility Study**

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address: <http://freenet.msp.mn.us/org/npcr>*

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Executive Summary

Micro Venture Capital (MVC) is an equity investment of \$5,000-\$25,000 in a small businesses. Unlike micro-loans, MVC investors assume a risk of not having collateral and not achieving a set return, but may negotiate part ownership. MVC follows in the footsteps of Community Development Venture Capital (CDVC) which seeks a "double bottom line" return – in addition to financial returns, investors also measure the social return of the investment. New jobs, moving people off public assistance, etc. are all "social returns."

This study investigated the feasibility of MVC and found that:

- like micro-loans which emerged slowly despite skepticism, MVC is emerging as the next generation small business economic development tool;
- while feasible, there are key barriers to be addressed, including the overhead costs of attracting an experienced venture capitalist to participate/manage the program and costs associated with providing essential technical assistance. Financial returns are too low to cover overhead expenses.

Two models are proposed to provide MVC. A MVC Fund capitalized by private investors and other sources would evaluate businesses, create partnerships through investment, and provide ongoing technical assistance and oversight. An Angel Agency would match individual investors with businesses identified by local Community Development Corporations (CDCs) and other small business programs. The investors would work directly with the business based on their mutual agreement on role.

Specific to the Twin Cities of Minneapolis - St. Paul, MVC activities are already present, though mostly through informal networks. Research found relatively few businesses that would qualify, thus the current environment makes a MVC fund unfeasible. Rather, formalizing the relationship and increasing the sophistication of investments through an Angel Agency is more appropriate. Next steps toward establishing such a program are identified.

INTRODUCTION

The creation of employment opportunities in inner city neighborhoods is critical for their revitalization. These neighborhoods are often home to the highest unemployment levels in urban areas and infrastructure decay. Financial support for new and expanding businesses is an essential component of creating jobs. Public and private resources are readily available for medium to large firms, but many businesses in these neighborhoods are sole proprietorships or have few employees. The "micro-loan" industry emerged to assist these small businesses, however some believe that the lack of access to capital that is without immediate repayment requirements, marginalizes their success. This paper explores the feasibility of supporting such entrepreneurs through a micro venture capital tool, and opportunities for MVC in Minneapolis.

I. BACKGROUND

Two key fields of knowledge are critical for understanding the niche a micro venture capital investment fund could play. *Micro loans* are used extensively throughout the world and in the United States. *Community Development Venture Capital (CDVC)* funds are available in a few regions of the U.S. and seek to merge social and financial goals. Much can be learned from what these programs do to be successful, limit their risk, and sustain themselves. These lessons will contribute to the structure of a micro venture fund.

Micro Loans

Micro loans came to the United States during the 1980s after years of success in developing countries. The Aspen Institute currently lists of 320 U.S. programs providing micro loans.¹ In general, they seek to provide access to financial resources that banks cannot/will not risk. Traditional banking industry criteria require demonstrated financial and management success, collateral to secure the debt, and sufficient owner equity. Micro loans (generally for amounts under \$15,000) are often referred to as "character loans" because they are provided to borrowers in many cases based on the character of an individual, rather than demonstrated business collateral, capital, or capacity. Despite the high risk nature of micro loans, default rates can be reduced by engaging creative programming and training resources to support entrepreneurs.

Micro loans, by definition, are small. In Minneapolis, most loans are less than \$8,000 and many are less than \$5,000. The returns on micro loans are generally below or at market rate, but in total insufficient to cover overhead expenses incurred by managing the fund. Most loan funds therefore depend on private donations to cover operating expenses while actual loan funds revolve.

Most programs recognize that entrepreneurs need significant support to be successful. Support is provided through two primary mechanisms: peer groups and technical assistance. Participation in a group allows one to learn from others' experience, and to share in what is often an isolating process as an individual entrepreneur works to be successful. As noted below, participation in peer groups is sometimes considered

¹ Conversation with Aspen Institute staff.

a prerequisite for receiving funding. Peer groups work best when proprietors are geographically dense or share a cultural heritage.

Technical assistance, such as financial management, marketing, employee management, computer program support, etc. is important for many entrepreneurs who have specialized but limited skills. Provision of such services can be costly, and contributes to high overhead for fund operators. Due to the size of the borrowers' businesses, few are able to pay market rate fees for technical assistance. Several agencies, such as the Minneapolis Consortium of Community Developers, subsidize the cost of technical assistance with financial assistance from public agencies and foundations. Banks also can assist the Consortium with its efforts to raise funds to support technical assistance programs in the central urban area.

Qualifying for a loan varies by program. Some use solely evaluation criteria while others also place conditions upon the recipient for qualification.

- Character review – particularly as reflected in work history and credit reports.
- Traditional review of financial assets, business market/competition, management experience.
- Analyzing the ratio of total debt to net worth (debt to equity ratio); and the relative value of available collateral.
- Completing classes on marketing and finance.
- Developing and using a business plan - demonstrating knowledge of competition, one's industry, and how one's business will grow in the future.
- Participating in "business loan groups" or "peer groups" is sometimes used to encourage learning from each other and supporting each person's efforts. "Peer Group Lending" often limits access to additional financing unless every member of a group is current on their account. This use of peer pressure and support is widely accepted as important.

This review process, and the experience of micro loans in the United States for maintaining low default rates while lending to relatively high risk small businesses, is helpful for shaping a micro-venture capital investment mechanism.

Community Development Venture Capital (CDVC)

The Community Development Venture Capital industry seeks to combine traditional venture capital methods with community development goals. It is a model for micro venture programs, even though the programs are larger size and utilize a different mix of tools: CDVCs generally invest \$50,000 or more, while micro investments will range from roughly \$5,000-\$25,000.

Social and Financial Goals

The industry is comprised of diverse interests including community development corporations (CDCs), non-profits, for-profit firms, community development financial institutions (CDFIs), corporations, and partnerships. CDVCs make available capital which is usually targeted to traditional major investments with high financial return. Investors still get a financial return, but their return also contributes toward a "double bottom line" which measures the social benefit as defined by individual CDVC.

One key challenge of this industry is balancing the social and financial returns. Three constraints are identified that define this trade-off.²

1. Funds that value social goals as highly as financial returns may have a harder time exiting their investments. For example, if the business is sold to a foreign (non-local) investor, management practices may change with a negative social impact. Limitations on to whom the business may be sold will diminish the likelihood of an investor getting a return.
2. Social goals impose a constraint on the entrepreneurs themselves. Social goals can raise operating costs for a business, thus limiting profitability and future investment.
3. CDVC funds may not focus only on the most profitable investments, but rather choose among investments that meet its social goals. Narrowing investment opportunities increases the risk factor of many investments. "Traditional venture capital funds review approximately 40-50 proposals for every investment made and even then an average of 35 percent of all investments either fail or lose money."³

Calculating Social Returns

As with traditional venture capital, investors desire a financial return, though MVC will include a "social" return in lieu of pure financial gains. A social return on investment could be calculated in financial terms such as the following:⁴

- difference in income of proprietor from pre-investment to post-investment – especially noteworthy if it puts her at a sustainable salary.
- wages paid to formerly unemployed people.
- savings to government agencies if person moves off welfare (i.e. if the former recipient now earns \$20,000 plus saves the government \$12,000, there is a social return of \$32,000).

Social returns are not defined by a national standard; local agencies create their own definitions as they reflect the needs of their community.

Lower Financial Returns

Beyond the social vs. financial tension described previously there are also some significant factors that are purely financial. Namely, many investments may take longer to mature and thus have diminishing returns. The two following tables illustrate the impact of longer vs. shorter time frames for return.⁵

² David Jegen, "Community Development Venture Capital: Managing the Tension Between Social and Financial Goals" May 3, 1996.

³ *ibid.* pg. 9

⁴ Interview with Suzanne Cunningham of Northeast Entrepreneur Fund, Inc.

⁵ E.B. Tasch "The Blue Dot: Community Development Venture Capital, Patience and Other Oxymorons; or, High-Risk, Low-Return Venture Capital and the New Realism" unpublished paper, May 28, 1996.

The first table shows rates of return for investments under five years, the typical time frame for venture capitalists. Exiting an investment successfully within 5 years is often seen as optimal timing because it is the strongest growth phase in most businesses. To exit at this point thus maximizes the return from successful ventures and helps to identify those which are less successful. Most venture capital firms report that their investors expect a 20 percent internal rate of return (IRR).

Profit Targets of Traditional Venture Capitalist	Annual Rate of Return (pre-tax)
Triple money in 3 years	44%
Triple money in 5 years	25
Four times money in 4 years	41
Five times money in 3 years	71
Five times money in 5 years	38
Ten times money in 5 years	58

Contrary to traditional venture capital investments which seek a return within five years, many socially motivated investments will not mature quickly enough. Instead, investors may not see a return for longer periods and thus their gain may be significantly less.

Profit Targets of Venture Capitalist - longer return period	Annual Rate of Return (pre-tax)
Double money in 7 years	10 %
Double money in 10 years	7
Double money in 15 years	5
Triple money in 7 years	17
Triple money in 10 years	12
Triple money in 15 years	8
Four times money in 15 years	10

One other critical difference between venture capital and CDVC is that most "venture capital is directed to larger, later-stage, high-tech investments," while CDVC investments may have a larger share of "development stage" companies in their portfolio.⁶ Selecting more "mature" companies significantly reduces the risk assumed by investors, though also the return.

To compensate for the lower financial return of community development investing, the CDVC industry concluded that most funds need to have a minimum optimal size of \$10 million. At this level, investments can be diversified to decrease their risk and of sufficient size to support businesses that might have large returns. Currently many CDVC funds manage less than this amount.

Clearly the challenges that face CDVCs will be accentuated at the micro level. Never-the-less, there is a clear need that CDVCs meet which the following section demonstrates can be satisfied at the micro level.

⁶ *ibid.* pg. 5

II. JUSTIFYING THE MICRO VENTURE CAPITAL TOOL

Interviews with businesses, micro lenders, and other related professionals identified a limited but important need for micro venture capital (MVC). According to local micro lenders, roughly one in fifteen recipients of a micro-loan could benefit from an infusion of capital, and may have good prospects for showing a strong return.⁷ Availability of capital is an issue in inner city neighborhoods where most entrepreneurs do not have family or social connections with access to financial resources.

Research found that the difference between micro loans and MVC is arguably vague due to practice and semantics. Some venture capital firms use a deferred loan mechanism where no payments are required for x years but a rate of return is specified. They argue that because they may see no return on investment, this mechanism qualifies as venture capital. Research found that many CDCs already engage in transactions with venture capital characteristics. CDCs generally provide assistance to "unbankable" businesses, thus they are already engaged in high-risk deals. In addition, Minneapolis micro-lenders finance deals that are often highly leveraged, thus have little if any hard collateral. Some micro-lenders will defer principal payments for a few months, up to one year.

The existence of such venture capital-like behavior among micro lenders suggests that MVC may be feasible.

The following definitions seek to clarify the difference between these two tools.

Micro-loan: financing provided where return is amortized at set rate of interest. Generally requires collateral.

Micro Venture Capital: equity investment where investor takes partial ownership position. The investor's role may be as either silent or active partner. A preferred return rate or amount may be specified in initial agreement, but the investor assumes an uncollateralized risk that if the business is not profitable, there will be no return. The *exit strategy* – how one gets the investment back with a return – will vary.

Venture capital would play the critical role of reducing the burden of debt service for companies in transition to higher productivity/revenue. In addition, an investor may provide much needed assistance or oversight in areas where entrepreneurs lack certain skills. Adding these resources to a business may enhance its chance of succeeding.

Potential beneficiaries/utilizers of MVC identified by this study are generally expanding business, not start-up. Feasible start-ups are limited to an entrepreneur who has many years of experience in the product they wish to produce, and is seeking to fill a niche. Manufacturing companies are considered the preferable investment, though some service businesses will be feasible. The barrier for manufacturing business is the significant investment (fixed costs) in equipment. Service and retail businesses are considered by many

⁷ Professor Richard Cardozo of the Entrepreneurial Studies Program at the Carlson School of Management, University of Minnesota found in a study of emerging businesses that 40 percent are actually undercapitalized with too much debt, while another 40 percent carried too little debt for the amount of equity invested. Most often the need is not for additional assets but better cash flow management. See "Capital Structures of Emerging Business" an unpublished report.

interviewed to pose challenges because of their limited cash flow, though certain service businesses have high enough margins to overcome this barrier.

The primary barrier to a MVC investment tool is identifying a viable exit strategy, which some argue does not exist. Traditional venture capital investments get a return when the firm is sold publicly (shares are available to the public); investors put money into businesses generally to move them into a growth spurt that attracts buyers. Micro and small firms rarely, if ever, are sold publicly which forces the MVC investor to find alternate methods. The following section proposes models and exit strategy options that build on the experience of micro loans which were also at one time considered financially impossible.

III. POSSIBLE MODELS AND THEIR LIMITATIONS

In discussing possible models, three primary issues arise: criteria for evaluating the potential investments, determining a basic model type and covering management expenses, and methods to exit the investment.

Criteria

Investors want to identify investments that have a strong likelihood of generating a return. Again, micro venture capital investors will need to share the value of a "double-bottom line" analysis that seeks social gain as well as financial. The following criteria and methods were suggested as ways to screen out the best potential businesses for investment.

- Traditional financial analysis with close look at cash flow.
- Character evaluation.
- Does the product/service demonstrate something unique that creates a barrier to entry for other firms?
- Demonstrated understanding of how the company will remain competitive over long haul. Note: with service industries, great ideas are hard to patent, so others will copy.
- Availability of equity and/or collateral from the entrepreneur. This clearly is a problem for many micro entrepreneurs, but many investors want to see a demonstrated commitment to the business. This is especially true when an investor is not a partner with authority to guide decisions that could impact their investment.
- Establishment of a corporation, so that all investments are into a business, not a person.
- Commitment to working with others to improve the business. This can be through active partnerships with investors or utilizing technical assistance to learn new techniques of management, marketing, etc.

Methods to Apply Criteria

- Create a series of requirements for an entrepreneur to pass through prior to qualifying for an investment. For example, require a business plan with market research, financial projections, management strategy, etc. This self-selecting process results in only the most motivated remaining at the end.
- Provide access to venture capital only to those who have paid back (are "graduates") of micro loans.

Program Models and Operating Expenses

Two basic models are emerging that can be described as either a MVC Fund or an Angel Agency. The two models may be used simultaneously in order to meet the needs of investors.

Potential investors suggested the program be simple and clearly defined. In addition, technical assistance must be worked into the program either through direct active partner participation or through the Fund requiring work with an advisor. *None of the entrepreneurs interviewed were willing to accept an investment if it required them to lose majority ownership which poses some challenges for ensuring that technical advice is heeded.* However, if screening is done well, most investment candidates will already be utilizing technical assistance advisors in their business and investors can evaluate this relationship.

Key to structuring the investment is to keep the arrangement simple. A common source of conflict is when decisions on how the business should progress differ. To avoid this problem, during negotiations a clearly specified goal of product and profit should be agreed upon. This prevents distractions of alternatives that arise, and keeps all energies focused.

A common challenge for both models is to cover overhead costs. The sustainability of traditional investment funds results from good management of the portfolio at minimal costs. Community Development Venture Capital firms identify an ideal portfolio of \$10 million to cover expenses (though most have less), and generally make investments of \$50,000 or more, thereby reducing overhead costs. The cost of servicing small investments is the same as large investments which is why profit-driven institutions do not make small investments. MVC is not likely to generate sufficient profits to cover overhead and thus will depend on contributions. Some investors may be willing to contribute philanthropically to the fund for overhead.

MVC Fund:

The Fund would have a set amount of money for investment and operate similar to many micro-loan pools and the Community Development Venture Capital (CDVC) Firms.

Critical to the success of a fund is competent program management. The CDVC Association recommends having a professional investor at the helm. Even with competent management, most CDVC firms take over three years to become profitable. Also of importance is a clearly defined goal for the MVC fund to differentiate it from other financing resources. Investors and staff must be committed to the financial and social outcomes of the program, and be willing to engage in creative methods for investment. Good management/staff and clear goals are also important because a fund also needs to be able to make tough decisions and handle negative publicity.⁸ There is an intrinsically political issue in rejecting many applicants. A fund must be equipped to address accusations that they are "not community focused enough."

The problem for an MVC Fund is overhead costs – namely management and technical assistance. Critical to the success of a MVC Fund is extremely competent management. This requires that investments are evaluated by an experienced venture capitalist. The reality is that such professionals make high salaries and are used to business performance standards that are not common among small businesses.

⁸ Memorandum from Meriwether Jones of the Aspen Institute, January 17, 1995 "Thoughts from the Alliance Meeting in Kentucky."

Additionally, it is arguable that the necessary technical assistance to support an investment and other general operations costs would far exceed any financial return. While factoring in a social return would potentially show a net gain, the financial shortfall would be problematic. Without additional resources, an MVC Fund would not be sustainable.⁹

Investment funds could be capitalized through donations, grants, or by offering a portfolio to investors who would be paid returns based on the portfolio's success. Another option is to use a zero coupon bond. This works for example by raising \$1 million, then using a zero coupon bond to invest a portion of that \$1 million at the going interest rate so that after five years one has the original \$1 million. The difference between the investment and the original level is available for investments.¹⁰

Pilot Model – Despite the difficulty of creating a large self-sustaining fund, a smaller scale pilot model exists. It could be structured so that an micro-lender with existing staff and technical assistance capacity could raise funds for MVC investments. Actual investments would be overseen by a committee comprised of venture capitalists and businesses that had utilized venture capital. The purpose of the pilot would be to test whether investments could be exited successfully, analyze the expense of technical assistance and oversight to ensure investment success, and track the financial returns.

If such a pilot is pursued, business partners must be explicitly aware that MVC relationships are different than micro loans. Investors become part owners and contribute to management decisions. To facilitate this change of relationship, technical assistance providers should not be the same as those who provided support if/when the business had a loan.

Angel Agency:

An angel agency would screen potential investment opportunities to identify those with greatest potential, and then present the businesses to a group of individual investors, also known as "Angels." Angels would work directly with the entrepreneurs and establish mutually agreed upon partnerships. An Angel Agency could also organize professionals who contribute their expertise as "angel technical assistance providers." **This model thereby could avoid most overhead costs;** the agency could have existing CDCs screen candidates as they already do for loans, though with special criteria for investments. The primary technical assistance source would be the investor. The Angel Agency could actually be a person funded at roughly a quarter-time to recruit "angels" and coordinate meetings.

One concern is that some investors may not desire ongoing involvement with their business partner or have the skills needed by the business. This results in a dependence on the agency to conduct monitoring and provide appropriate technical assistance. This increases costs for the agency, but a fee could be assessed to the investor to defray this expense. This would be similar to operating a portfolio under the MVC Fund model.

⁹ Micro loan providers receive funding support to subsidize the cost of technical assistance (TA). The author wishes to propose a model that loan recipients pay a percent fee (i.e. 5 percent) on their loan that in turn pays for the TA received. This accomplishes two tasks. One it increases the investment by the borrower in utilizing TA fully, and two it helps defray CDCs expenses.

¹⁰ Idea from Mike Krause of the Green Institute.

Investment and Exit Options

Through interviews, roughly twenty ideas were generated for how to invest equity in small businesses. Many methods are ways to restructure the financing of a business or to apply alternative models when appropriate (i.e. cooperatives, Muslim investment programs, etc.). After careful evaluation, the following options emerged as those most likely for MVC that provide a clear exit option. The following list is to serve as a menu that investors and entrepreneurs can use as a reference for defining their relationship.¹¹

1. **Receivable financing.** Business sells invoice for a percentage of its face value (factoring) to an investor which provides a line-of-credit to the business. The investor is paid back upon receipt of payment, plus a percentage of the operating profit. In addition, the investor may require a percentage of any bonus paid to the owner beyond a set salary.
2. **Purchase order financing.** Similar to receivable financing, though riskier. The investor in this case pays for the supplies to create a product. The inventory has relatively minimal value thus there needs to be a demonstrated customer base to purchase the product. This operates similar to a line of credit for well financed businesses. The investor negotiates a set fee return or a percentage of profits from sales.
3. **Invest as equity first 3 years.** Investor gets a return out of profits at agreed upon rate. If the investor is not paid off during this time, then convert the balance to a loan paid back at x percent return.

Business may be able to get loan from bank to pay off the investor in year 3 if business is showing success and has built collateral; similar to a leveraged buyout.

4. **Limited Liability Company.** This model is unlikely to be used for MVC investments in its traditional form due to the requirement that the general partner needs personal wealth to cover legal liability costs. However, this could be adapted using the legal structure that protects the limited partners who contribute cash, but have no involvement in management and can not be sued.
5. **Preferred stock.** Debt like, but different rights than a creditor. Money is invested at a fixed dividend rate, but collection may be deferred for a year. It is subordinated to lenders, but the investor generally has rights for payment before the owner is paid. One may also arrange to delay repayment until the company is profitable at which time x percent of all profits is paid to the investor.

¹¹ Three other options exist though the latter two are not easily applied due to the size of most firms or cultural issues.

1) **Refinancing** a company through a bank term loan to pay off investors.

2) **Cooperative model of Employee Stock Ownership Trust (ESOT).** A bank, or the National Cooperative Bank's Development Corporation, finances employee purchase of shares. This is a option often used to capitalize low margin companies that use significant labor. The "lender" is paid off by payments from the ESOT's share of company profits, or dividends. This model will not usually work in a micro business with few employees.

3) **Muslim Investment Partnerships.** Under Islamic law, Muslims must use partnerships because they are forbidden to take loans and pay interest. Thus partners share risk and there is no collateral. Partnerships may be active or silent and can set up how profits are used. The return on investment (ROI) comes from a share of profits, not interest, thus there is risk that costs may increase causing a decrease in the return. This model is how houses and other major purchases are financed.

6. Purchase equipment and lease to business. This either reduces a business' debt service on the balance sheet or increases working capital by keeping equity available. May not work if equipment is highly specialized and has no resale value. The investor is paid-off over time by regular lease payments.

Cautions:

Some argue that mechanisms which design exit through a balloon payment assume a strong potential for profitability. Small businesses may not achieve sufficiently rapid growth to provide for this kind of exit. However, in some cases balloon payments provide an opportunity to review and change the terms of an agreement, as part of refinancing the balloon.

In order to prevent problems when partnerships terminate, some may opt to use a "Buy-Sell Agreement." This gets partners to start out with an agreement at beginning of partnership on how to value the business at possible points of development in the future. In addition, conditions are set for withdrawal of capital.

IV. MINNEAPOLIS - RESOURCES AND IMPLICATIONS

The Twin Cities economy is booming and new businesses are emerging constantly. This wave of economic growth is slowly reaching into economically depressed inner city neighborhoods. However, based on discussions with CDCs in Minneapolis, there are relatively few business clients who would qualify for an MVC investment. In fact, the two organizations that already engage in MVC-like investments have to look outside the central cities in order to find sufficient opportunities to diversify their portfolio.

The region is home to a wealth of community investment through private foundations, corporations, and individuals. Two organizations currently engage in venture capital activities with a significant emphasis on inner city revitalization.

Milestone Growth Fund, Inc. makes equity investments in businesses owned by individuals classified as socially or economically disadvantaged. The portfolio focuses on investments over \$50,000 though with significant attention to opportunities in the central city. This fund is capitalized at over \$3 million. While Milestone's bottom line investment exceeds the definition of MVC, it does meet the next level of support.

The William C. Norris Institute is expanding operations beyond its traditional scope of investments in emerging technology companies. Staff members are now able to make investments as low as \$10,000, and seek out opportunities to do so in the inner city.

In addition to programs making investments, there are individuals and organizations that informally serve as angels or angel agencies.

Research clearly identified that there are resources for and application of micro venture capital investments. The challenge is to organize these resources to make the process more effective. However, the effort dedicated to this process should be balanced by the reality that there are, according to current estimates, insufficient potential businesses that qualify for MVC investments to justify a major program. Therefore, a major initiative is inadvisable, especially for a MVC Fund, though an Angel Agency is possible.

V. CONCLUSION AND RECOMMENDATIONS

Micro Venture Capital is a feasible tool for investments in small businesses and meets a need for access to capital in poor neighborhoods. It is "feasible" based on measuring social and financial returns. However, its application faces numerous obstacles. Overhead costs are high due to the extensive technical assistance provided to increase the likelihood of businesses' success. These costs usually will not be recovered due to the small financial return from MVC investments. The best solution is a Angel Agency that either provides angel investors who double as technical assistance providers or a mix of pure angel investors with "angel advisors" who provide technical assistance pro bono.

The practice of MVC investments already exists in limited form. The key to such investments is seeking investors who want both a financial and social return. The lack of access to capital in inner cities is significant, and small investments can play a critical role in generating sustainable incomes for proprietors and jobs for their employees.

In light of existing programs and other resources in the Twin Cities, pursuing a large MVC Fund is ill-advised at this time. Rather energy should be spent to coordinate interested parties for an Angel Agency. A quarter-time coordinator should more than suffice. Implementation of an Angel Agency might stimulate more demand for MVC, at which time a Fund should be assessed for feasibility. In addition, operating an Angel Agency will provide significant information about how to best make and support investments. [Note: a small scale pilot MVC fund could also test the MVC tool. It would build on the existing capacity of a micro-lender, but require a specially tailored investment review committee.]

Next Steps Toward Possible Implementation of a MVC Angel Agency in Minneapolis/St. Paul:
[These steps are cumulative, building upon the completion of previous steps.]

The first step should be to immediately identify two businesses ready for investment and one or two angels to test out the tool. Soon there after the following steps should be implemented.

- Gather identified interested parties to discuss options for formalizing an angel agency structure.
- Identify an highly experienced venture capitalist to develop final criteria for evaluating potential investments. This person should ideally also have a commitment to help operate the program if it starts. There may be a major firm that would be willing to contribute staff time pro-bono, though it is essential to identify a specific staff member with personal interest in the project. A selling point may be "come show folks how capitalism can work for the poor." Participation would be focused on evaluating businesses for investment potential before Angel meetings with entrepreneurs. This should be done with an "investment review committee."
- Formalize the model structure and generate a brochure/program statement for promotional purposes.
- Train CDCs and other lenders on the types of business clients that could qualify for a MVC investment. In doing so, further analyze the potential market for the product by creating a feedback loop to the Angel Agency to measure level of business interest.
- Pilot the program for three years. The duration is necessary to give time for investments to exit.

A similar time line could be pursued for a pilot MVC fund, though the likelihood of long-term sustainability is greater with an Angel Agency which has lower operating expenses.

Interviews

Minneapolis Organizations

Michelle Bloom - Creative Business Consulting
Barry Bosold - University Technology Center
Ralph Bruins - Urban Ventures
Candace Campbell - CDC Associates
Dick Cardozo - University of Minnesota, Carlson School of Business, Entrepreneur Program
Suzanne Cunningham - Northeast Entrepreneur Fund, Inc.
Joe Donnor - Project for Pride in Living
Josh Einzig - Norris Institute
Waffiq Fannoun - Northside Residents Redevelopment Council (NRRC)
John Flory - Whittier CDC
Kim Havey - Business Development Consultant
Scott Hawkins - Powderhorn Park Neighborhood Association
Andy Herman - Your Silent Partner
Norman Hove - Accountant (retired)
John Hulkonen - Phillips CDC
Kim Hunter - Entrepreneur Fund of the Minneapolis Foundation
Mike Israel - Goldner Hawn Johnson & Morrison
Harlan Jacobs - Genesis Business Centers, LTD.
Roger Jensen - Anoka-Sherman County Capital Fund
Ted Johnson - Minnesota Cooperation Office
Michael Krause - Green Institute
Ed Lambert - Minneapolis Consortium of Community Developers
Margaret Lund - Northcountry Cooperative Development Fund
Iric Nathanson - Minneapolis Community Development Agency (MCDA)
Cynthia Paulsen - Women Venture
Erik Riese - Seward Redesign
Lauri Rockne - Humphrey Institute
Judy Romlin - Milestone Fund
Robert Scarlett - ACCION International
Joe Selvaggio - Project for Pride in Living
Dana Snell - Northside Residents Redevelopment Council (NRRC)
Dave Summers - Urban Ventures
Mike Temali - Neighborhood Development Corporation
Jennifer VanNort - Phillips CDC

Businesses

People's Company Bakery - Mark Suchi
Soulful Crosswords - Sandra Freeman
Fresh Fannie - Tina Latimer
Duncan Special Transport - Duncan Connell
June Harmon, Home based accountant
Innervision by Henry - John Henry

Banks

Mark Luhmann, Western Bank, University Avenue Office
Richard Fink, Riverside Bank, Cedar-Riverside Office
Gary Ruhter and Robert Blenkush, Marquette Bank, Lake Street Office

National Organizations

Fred Beste, Mid Atlantic Venture Funds
Meriwether Jones - Aspen Institute
Kathy Stearns, National Community Capital Assoc.